

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7591

BILL NUMBER: HB 1615

NOTE PREPARED: Jan 26, 2007

BILL AMENDED:

SUBJECT: Fresh Start Income Tax Credit.

FIRST AUTHOR: Rep. Elrod

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State

Summary of Legislation: This bill establishes a state income tax credit for a taxpayer that employs an individual who within the preceding four years was either: (1) convicted of a felony; or (2) released from incarceration for conviction of a felony. The bill provides that the amount of the credit each taxable year is \$500 per qualifying employee.

Effective Date: January 1, 2008.

Explanation of State Expenditures: This bill will increase the administrative costs of the Department of State Revenue (DOR). The DOR will have to amend tax forms, as well as update computer software. It is estimated that the provisions of this bill can be implemented within the existing level of resources available to the DOR.

Explanation of State Revenues: The bill allows a tax credit for employing a felon who was either convicted of, or released from incarceration for the felony less than 4 years prior. The credit is equal to \$500 times the number of qualifying employees and is prorated based on the number of months of full-time employment. The bill allows a taxpayer to carry this credit forward for up to 9 years to the extent that the amount of the credit exceeds the taxpayer's state tax liability. The credit is not refundable. This bill could potentially reduce revenue from the Adjusted Gross Income (AGI) Tax, Financial Institutions Tax, and Insurance Premiums Tax beginning in FY 2008. The bill has a January 1, 2008 effective date, therefore, only the last half of FY 2008 collections would be affected. The impact of this bill will ultimately be determined by the number of released or convicted felons employed in Indiana each year.

Estimation Issues: As a point of reference, in CY 2004 there were approximately 14,000 felons released from

prison, and approximately 15,200 in CY 2005 and 16,400 in CY 2006. Therefore, a total of 45,600 felons were released from prison from the beginning of CY 2004 through the end of CY 2006. The employment rate for felons is unknown. If, for example, 10% of the 45,600 felons were employed in Indiana, in a taxable year, the aggregate amount of tax credits that would be awarded under this bill would be approximately \$2.28 M. Reports on felon post release employment rates range widely because of lack of a universally used and accepted definition of employment rate, as well as great degree of variance between local economies. Therefore, it must be noted that the estimate above is a point of reference only and not to be construed as an actual estimate of the impact of this bill on state revenues. Furthermore, the example above does not account for the possibility that under this bill a person may be awarded a tax credit for employing an offender who was convicted of a felony within the last 4 years and is still incarcerated (as permitted under IC 11-10-7-1).

It must be noted that to the extent that the unemployment rate for convicted felons decreases and these individuals are employed full-time, there could be an increase state Individual AGI Tax collections. This would be determined by the number of convicted felons employed that would not have been employed but for the credit provided in this bill.

Background Information: Current statute, IC 6-3.1-6, allows an income tax credit for businesses that employ currently incarcerated individual. That statute allows a credit for certain investment in equipment installed at a Department of Correction (DOC) facility and wages paid to incarcerated employees who use this equipment to conduct business (PEN Products is an example of this kind of partnership). According a report from the DOC, the PEN products partnerships in CY 2006, helped employ 510 inmates.

Revenue from the corporate AGI Tax, the Financial Institutions Tax, and the Insurance Premiums Tax is distributed to the state General Fund. The revenue from the individual AGI Tax is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%).

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: Department of Correction.

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